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NATIONAL DEFENSE UNIVERSITY

NATIONAL WAR COLLEGE

REGIONAL ASSESSMENT OF SOUTH AMERICA

CORE COURSE 5604

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THE GEOSTRATEGIC CONTEXT

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Report Documentation Page				Form Approved OMB No. 0704-0188	
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1. REPORT DATE 1997		2. REPORT TYPE		3. DATES COVERED 00-00-1997 to 00-00-1997	
4. TITLE AND SUBTITLE Regional Assessment of South America				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) National War College, 300 5th Avenue, Fort Lesley J. McNair, Washington, DC, 20319-6000				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT see report					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES 9	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

Summary

In South America, the United States has a rare opportunity to foster the creation of a community of democratic, market-oriented neighbors. Young democracies are now commonplace in a continent once noted for its military dictatorships. Economically, the countries of the region have emerged from the debt crisis of the 1980's with a zealous belief in the advantages of export-oriented policies, privatization, and the elimination of trade and investment barriers. The United States should encourage these positive trends, while recognizing that the countries of South America are best able to chart their own course. It is a course not without obstacles. Although democratic governance now prevails, these are fragile democracies. Similarly, economic growth has left in its wake the problems of poverty and disparity of income. The drug trade, corruption and crime pose additional challenges.

These problems notwithstanding, the overall trends in the region are positive. Accordingly, the United States can afford to take a hands-off approach toward South America. The leaders of South America want to shape their own futures. This is fortuitous, as the U.S. has limited resources to assist the region. The U.S. can best promote its national interests in South America by focusing on the following over-arching policy objectives: (1) strengthening the process of economic reform and regional economic integration, (2) strengthening the commitment to democratic governance, rule of law, human rights and constructive civilian-military relations, and (3) strengthening cooperation aimed at the resolution of transnational issues such as drug trafficking, crime, migration, terrorism and environmental degradation.

Context

An understanding of U S -South America relations requires some appreciation of the historical, political, economic, cultural and other factors that create the backdrop for this relationship. Key aspects of that context are noted below.

Historical Experience: Five hundred years of Spanish influence has had a lasting impact, such as the belief in a strong, central government, which was created by the Spanish to facilitate their plunder of the region's natural resources. Brazil, with its heritage of Portuguese colonial rule, stands apart from the other countries of South America. Brazil is also unique for its huge size. This has given rise to concerns among some countries in South America that Brazil wants to dominate the region, an aspiration that Argentina has shared at times. Likewise, there is fear of U S domination due to the asymmetrical power relationship between the U S and South America. Yet, at the same time, South Americans complain that the U S neglects the region. Ties to Europe remain strong.

Political and Military: Despite a history of autocratic rule by military regimes, today, the nations of South America all have a democratically-elected president. These transitions from military rule to democracy remain incomplete, however. There is some disgruntlement within the military about its return to the barracks and some uncertainty about its future role. Political insurgency still plagues several governments, such as Peru, and corruption is a widespread threat to political stability. Much of the military equipment in the region is reaching obsolescence, decisions on new equipment purchases could fuel an arms race and lead to regional instability.

Economics: South America is a large and diverse economic entity, with strengths in agriculture, mining and industrial production. Venezuela is a key exporter of oil to the

United States The region has successfully emerged from the debt crisis of the 1980's (the "lost decade") and enjoys positive economic growth Another positive trend is the push for regional economic integration (e.g , MERCOSUR, a common market established by Argentina, Brazil, Paraguay and Uruguay in 1991) South America is the fastest growing region for U S exports in which we enjoy a favorable trade balance Projections for the year 2005 see the U S selling more to Latin America than to the European market or Japan On the negative side, there is growing poverty and a sharpening disparity between the haves and have nots

Culture and Social: The cultural legacy of the Spanish/Portuguese era, with its paternalistic culture, has discouraged acceptance of entrepreneurship and capitalism The strong influence of the Catholic church may also have hampered economic development The military and clergy are respectable professions Commonly spoken languages are Spanish, Portuguese, and English, and populations reflect their diverse origins native Indian, European and African

Relations within and outside the region: There has been impressive progress toward regional integration, especially in economic areas But countries also look outward -- toward the Pacific (e.g , Chile's desire to join APEC), northward (e g , the interest in joining NAFTA) and toward Europe There is strong support for regional arms control initiatives (e g , Treaty of Tlatelolco) and for international regimes (e g , NPT and CWT). All South American nations participate in the OAS Unresolved border conflicts (Ecuador-Peru, Bolivia-Chile, Argentina-Chile, Colombia-Venezuela) pose a challenge to regional harmony

Environment: Economic development has priority over environmental stewardship at this time. The loss of rain forest is changing the local environment. Land is naturally acidic. This supports the lush rain forests, but once cleared, the land is only good for a few years of traditional crops, but remains suitable for coca.

U.S. Interests

Our assessment of U.S. interests in South America assumes the following:

(1) South America will enjoy continued economic growth, making it more important in the world market, (2) the countries of South America will remain committed to free market and democratic reforms, and (3) the U.S. will remain engaged in the region, but South America will not be a key focus of U.S. foreign policy as long as the positive trends described above continue.

With these assumptions in mind, U.S. national interests in South America are as follows:

Promoting U.S. prosperity Access to free and open markets in South America will create jobs for Americans and contribute to our economic well-being. We benefit ourselves by promoting economic prosperity throughout South America. The expansion of NAFTA and subregional associations will work toward that end.

Promoting U.S. security Support for regional peace and stability will translate into more security for Americans at home. We should continue to support democratic governments throughout the region, strengthen the role of the OAS, encourage improved socio-economic distribution, foster greater respects for human rights and the rule of law, and ensure adherence to arms control agreements.

Addressing transnational issues Drugs, terrorism, crime, corruption, migration and environmental degradation pose challenges to U.S. prosperity and security. These are global issues which the U.S. cannot solve alone. We should seek the active cooperation of South American nations on this agenda, particularly the drug issue.

America's ability to pursue its national interests in South America faces a variety of domestic constraints. First and foremost is the issue of costs. Financial constraints will severely hamper our ability to develop programs aimed at furthering our objectives in South America. Congressional attitudes represent another constraint. There is bipartisan support in Congress, particularly from key agricultural states like Texas, Florida and California, to delay NAFTA membership for Chile or any other country. Another constraint is the feeling among many Americans that South America, except for its role as a source of drugs and illegal immigrants, is simply not important to the United States. This attitude, however, is certain to be challenged by the growing Hispanic population in the U S , which might force more attention to South America.

Significance: Opportunities & Challenges

Opportunities

Today, South America and the United States share a broad consensus on the utility of market economics and democratic governance. However, this consensus is of recent vintage and the U.S. should seek to strengthen the commitment in our hemisphere to the free market system and to democratic values and institutions. In this regard, the Plan of Action, issued at the December 1994 Summit of the Americas held in Miami, provides a valuable road map, we should work closely with the countries in the region on the continued implementation of that document.

Progress on economic reform in South America presents important business opportunities for American firms. U S exports to the region enjoyed 21 percent annual growth for the years 1987-93, already, South America is the largest market in which the U S has a favorable trade balance. The achievement of a 'Free Trade Area of the

Americas (FTAA)" by the year 2005, as agreed to at the 1994 Miami summit, should stimulate additional economic growth -- and prosperity -- throughout the Americas by eliminating barriers to trade and investment. This will translate into more jobs for American workers.

In the political realm, the emergence of governments more committed to democratic principles provides an opportunity to foster better regional ties, which could contribute to the region's peace and stability. Defense expenditures have declined and there is a greater willingness by the countries of South America to adhere to international arms control regimes. Neighbors that once eyed each other suspiciously -- Brazil and Argentina -- now conduct joint military exercises. South American governments are now frequent participants in UN peacekeeping missions, another positive trend that the U S should encourage. Finally, the willingness of the military to remain in the barracks during transitions to civilian political control augurs well for the strengthening of democratic institutions.

Challenges

The opportunities outlined above, however, face a number of threats and challenges. Principal among them are the following:

Economic Although economies throughout South America are growing, so too is poverty, disparity of income, and unemployment. These conditions have contributed to increased crime and corruption. Economic growth and regional integration are handicapped by inadequate transportation systems, excessive red tape, heavy national debt, and lack of trained human resources. U S efforts to promote free trade may encounter resistance from key U S agricultural states. We must also find a proper balance between our human rights and economic concerns.

Political Social unrest is on the rise throughout the region. This runs the gamut from middle class opposition to specific economic reform policies to actual guerrilla insurgencies committed to political revolution. Governments have not yet fully institutionalized democratic reforms (e.g., President Fujimori's "auto-coup" in Peru), legal structures are weak and there is inadequate respect for the rule of law. Political conditions in at least two states -- Colombia and Venezuela -- are particularly perilous.

Drugs The corrupting influence of money makes it difficult to make headway in the "War on Drugs." South American nations believe that we unfairly focus on the supply side of the equation in order to avoid the tough decisions that would be required to cut demand. Some of the economic reforms we have urged upon South America (such as banking reforms which make money laundering easier) have had the unintended consequence of stimulating drug production.

Regional Relations: South America still faces a number of unresolved border disputes. These have periodically erupted into hostilities, such as between Ecuador and Peru in 1995. There are also lingering anxieties regarding Brazil's aspirations for regional hegemony.

Role of the Military Military coups are not yet a relic of the past, as evidenced by two coup attempts in Venezuela in 1992. Will the military be content to remain in the barracks? How firm is its commitment to civilian rule?

Conclusion and Policy Recommendations

The United States often stands accused of neglecting South America except during times of crisis. Assuming for the sake of argument that this accusation is accurate, one might conclude, based on political and economic developments in South America over the last decade, that this supposed neglect has not been detrimental to the region. More of the same might be in order. Accordingly, U.S. policy toward South America should continue to emphasize the institutionalization of the economic and political reforms already underway. This includes (1) promoting market economics, economic integration, and the creation of an FTAA by the year 2005, (2) strengthening democratic governance, the rule of law and respect for human rights, and (3) encouraging the countries of the region to tackle the problems of social and economic inequality. In addition, the U.S. must cooperate with the nations of South America to address transnational problems that we confront together: drugs, migration, terrorism, crime and environmental degradation. In the area of drugs, we must devote greater attention to the problem of demand. As a first step, the U.S. should legalize drug use. We should also eliminate the annual process of certifying that countries are working to stop drug trafficking. This certification process is not helping us to combat drug trafficking and could even be counterproductive.